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SIPDIS

E.O. 12958: DECL: 11/13/2018
TAGS: [EFIN](#) [KNNP](#) [KTFN](#) [KPAL](#) [PREL](#) [IS](#)
SUBJECT: DEMARCHE REQUEST: SEEKING HALT TO TERMINATION OF
CORRESPONDENT BANKING SERVICES

REF: A. TEL AVIV 2447
[1](#)B. TEL AVIV 2452

Classified By: A/S David Welch, reasons 1.4 (b) & (d)

[1](#)1. (U) This is an action request: see paragraph 3.

[1](#)2. (C) Summary: Banks Hapoalim and Israel Discount Bank (IDB) have indicated that they plan to terminate all correspondent banking services for Gaza branches of Palestinian banks. Washington is concerned that the planned action by the only two Israeli banks providing Shekel clearing and other services to Gaza will destroy Gaza's formal banking sector, drive currency and commercial transactions in Gaza to the black market, weaken the entire Palestinian financial system - a critical institution of a future Palestinian state - and ultimately benefit Hamas in Gaza. We should press the Bank of Israel to find a solution prior to Bank Hapoalim's announced deadline of November 30, 2008 to allow the continued operation and viability of the Palestinian banking sector in Gaza. End summary.

[1](#)3. (SBU) Action Request: The Department requests that Embassy Tel Aviv demarche Stanley Fischer, Chairman of the Bank of Israel (BOI), as soon as possible prior to November 30 and attempt to forestall the threatened termination of correspondent banking services for Gazan branches of Palestinian banks.

Objectives

[1](#)4. (U) The Department instructs Embassy Tel Aviv to pursue the following objectives and issues with Fischer:

- Gain BOI assurance that it will establish a mechanism to provide continued and uninterrupted correspondent banking relations for Palestinian banks, including their Gaza branches.
- Emphasize that Bank Hapoalim's and IDB's threatened termination of correspondent banking services will cause banks in Gaza to fail, thereby weakening a critical institution of a future Palestinian state, and ultimately undermining Israeli security by increasing black market transactions and strengthening Hamas. Note that we already have seen evidence of increased currency transactions on the local economy in Gaza, which benefit the smugglers and Hamas.

Reporting Deadline

[1](#)5. (U) Please report all host country responses to NEA/IPA Desk Officer Andrew Lentz by November 20.

Background

[1](#)6. (C) Bank Hapoalim and Discount have long been concerned

that providing banks in Gaza with cash and other services makes them vulnerable to charges that they are indirectly funding Hamas operations against Israel and opens them to litigation risk. Washington is concerned, however, that the banks' termination of correspondent banking services, including cash transfers, letters of guarantee, and credit and credit confirmations, will have wide-ranging negative effects in Gaza and the West Bank that ultimately will serve to strengthen Hamas and undermine Israeli security. The loss of Shekel-clearing and cash transfer services will result in severe cash liquidity shortages in Gaza and have an immediate effect on the ability of the PA, NGOs and UNRWA to make salary and social welfare payments. Deprived of their link to the outside world, Palestinian banks likely will close their Gaza branches. We are also concerned that the collapse of banks in Gaza will weaken the entire Palestinian financial sector.

17. (C) If Gaza's formal banking system fails, Palestinians will lose one of the critical institutions necessary to help stabilize the economy and conditions once calm returns. As Post recommended in reftels, one possible solution is for the BOI to expedite approval of the proposal to shift correspondent relationships from the private banks to the Ministry of Communication's Postal Bank. If this is not possible now for political or technical reasons, the BOI could appeal to the banks to postpone termination until a solution can be found.

18. (C) The institutional viability of banks operating in Gaza - as well as that of the entire Palestinian financial system - is a separate issue from that of Gaza's liquidity needs.

Point of Contact

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19. (U) Please contact Andrew Lentz at (202) 647-2268 or via e-mail at lentzan@state.gov for further background information or points to meet our objectives.
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